Westfair Foods Ltd.

Annual Report 1980

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Westfair

Westfair Foods Ltd. is a major wholesaler and retailer of food products in Western Canada and the Southwestern U.S.A.

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Report to Shareholders

This year's Annual Report reflects a further increase in your Company's growth and strength. Sales increased by $112,526,000 to a total of $881,344,000. Net earnings increased to $8,449,000 compared to $7,441,000 in the previous year.

At year's end, our working capital improved by almost $3 million after spending over $10 million on capital items such as new, expanded and remodelled stores and warehouses and several parcels of real estate.

The Provinces of Alberta, Saskatchewan and Manitoba generally enjoyed good economic health compared to the average Canadian province in 1980, although the prairie experience itself was mixed. Alberta increased its population by 66,000 people, and experienced only a 3.7% unemployment rate, which was the lowest of any province in the country. Saskatchewan had a 10,000 population increase and a 4.4% unemployment rate, the second lowest in Canada. Manitoba recorded a slight population decrease of 4,000 people, continuing the trend that started in 1979, when a decrease of 2,000 people took place. The unemployment rate for Manitoba was 5.5%, the third lowest of all provinces.

Alberta's energy based economy was complemented by excellent results from its agricultural industry. Saskatchewan continued to develop its mix of energy, minerals and agriculture, but suffered to some extent from unsatisfactory weather conditions affecting agricultural yields. Manitoba faired less well economically, since much of its economy depends upon the grain crops which were disappointing because of weather conditions.

In the past year, we were very active in the development of corporate combination stores, the designing, fixturing and launching of new independently operated stores and the expansion of wholesale facilities throughout the prairies.

Our second combination store in Saskatoon opened in March 1980. This store, on the eastern part of the city, complements our other combination store located on the west side. These two stores bring to Saskatoon the finest combination of modern food and drug shopping to be found anywhere in the country.

Our store on McPhillips Street in Winnipeg was expanded by 13,000 square feet to 50,000 square feet in December 1980, and it is the first of a series of food and drug combination stores which we will be developing in that city.

In addition to an extensive and comprehensive range of food departments, our combination stores offer a large selection of non foods organized in six departments. The pharmacy department features a prescription dispensary, over-the-counter drugs, as well as an extended range of baby goods. The beauty department displays a full range of toiletries, bath products and personal care appliances around a serviced cosmetic counter. Photo and audio equipment is sold by qualified specialists in the photo department centered around a serviced counter. Toys, records, books and magazines, stationery and greeting cards are found in the leisure

department. The housewares department includes popular kitchen gadgets, cookware, glassware, small appliances, a variety of "do it yourself" everyday needs, as well as a limited range of top quality houseware normally found in specialty kitchen shops.

Additional space has been built at the front of the stores to accommodate community services in demand, such as, dry cleaning and optometry facilities, etc. Our development is truly designed for "one stop shopping". Two further combination stores are under construction in Winnipeg, and additional stores are planned. All the combination stores are equipped with electronic cash registers and optical scanners.

Major expansions were completed in our stores in Park West, Winnipeg and Normanview, Regina. Our plans for 1981 include the building of at least three new corporate stores in Saskatchewan.

We are pleased to have played a major role in the development of 18 new and a further 18 expanded retail locations belonging to our independent customers. These independent operators invested over 6.5 million dollars in capital in their businesses during 1980, which gives an indication of the confidence one can rightly have in the future fortunes of the independent retailer.

Wholesale branch operations were enhanced by building frozen food facilities in Red Deer, Dauphin, Swift Current, Yorkton and Prince Albert. This additional service has assisted us in developing further our institutional business which I am pleased to report is expanding very satisfactorily.

As a result of our increasing wholesale volumes in Northern Saskatchewan we are currently constructing a completely new wholesale facility of approximately 200,000 square feet in Saskatoon. Also during 1981 we plan to expand the cash & carry warehouse and the perishable warehouse in Winnipeg.

As mentioned in our 1979 report we are in the process of making changes to our wholesale computer systems which will enable us to provide a more comprehensive service to our customers. The first system went into operation in Febuary, 1981 in Edmonton.

It is well known that the economy of the U.S.A. was not buoyant during 1980. The west and southwest of the country, however, fared better than average but the trading environment was nevertheless very competitive.

In spite of these circumstances, our Denver and Albuquerque operations were able to record a 11.9% increase in sales to just over $296 million. The competitive structure of the retail food industry in Colorado is such that the chains tend to dominate trade in the cities, rendering profitable independent operation very difficult. However, independent stores are vibrant and profitable in the smaller towns. Having regard to the extremely difficult trading environment faced by independent operators in the cities, we elected to create ample reserves against the possibility of any bad debts. Subsequent to the year end we entered into an arrangement with a Canadian controlled development company in Denver to purchase our leases and undeveloped real estate with the objective of maximizing the benefits which can come from the best use of these resources.

We have entered the 1980s with expanded confidence. This confidence is built on the support and loyalty of our customers and our employees. This support and loyalty is recognized and greatly appreciated.

M. D. BOOTY
President and
Chief Operating Officer

Five Year Review

Westfair Foods Ltd.

(in thousands of dollars)	**1980**	1979	1978	1977	1976
Sales	**$881,344**	$768,818	$617,743	$504,945	$390,832
Net earnings	**8,449**	7,441	4,831	6,191	4,437
Depreciation	**4,466**	3,817	3,275	2,784	1,788
Working capital	**19,972**	17,046	18,389	24,633	26,476
Shareholders' equity	**67,016**	62,494	57,768	55,652	51,357
Total assets	**$127,637**	$120,310	$ 99,671	$ 88,088	$ 78,065

Consolidated Statements of Earnings and Retained Earnings

Westfair Foods Ltd.
53 weeks ended January 3, 1981
and 52 weeks ended December 29, 1979
(in thousands of dollars)

Consolidated Statement of Earnings	1980	1979
Sales and other income		
Sales	$881,344	$ 768,818
Investment income	1,200	886
Gain on disposal of fixed and other assets	3,182	450
	885,726	770,154
Operating expenses		
Cost of sales, selling and administrative expenses before the following items	858,115	747,374
Depreciation	4,466	3,817
Net long term lease expense	4,390	2,941
Amortization of goodwill	120	120
	867,091	754,252
Operating income	18,635	15,902
Interest on long term debt	538	476
Other interest expense	1,282	1,445
	1,820	1,921
Earnings before income taxes	16,815	13,981
Income taxes (note 6)	8,366	6,540
Net earnings for the period	$ 8,449	$ 7,441
Per common share	$ 95.09	$ 83.34

Consolidated Statement of Retained Earnings		
Retained earnings at beginning of period	$ 60,277	$ 55,551
Net earnings for the period	8,449	7,441
	68,726	62,992
Dividends declared		
Preferred shares	74	84
Class A shares	135	135
Common shares	3,235	2,496
	3,444	2,715
Retained earnings at end of period	$ 65,282	$ 60,277

Consolidated Balance Sheet

Westfair Foods Ltd.
(Incorporated under the laws of Canada)
As at January 3, 1981 and December 29, 1979
(in thousands of dollars)

Assets	**1980**	1979
Current assets		
Cash and short-term investments	**$ 143**	$ 125
Accounts receivable (note 2)	**15,385**	13,750
Inventories	**55,923**	51,138
Prepaid expenses	**1,165**	1,232
	72,616	66,245
Investments and other assets		
Land held for sale or development	**1,547**	1,517
Secured loans and advances	**1,003**	3,534
Sundry investments, at cost	**4,008**	3,895
	6,558	8,946
Fixed assets		
Buildings, equipment and leasehold improvements	**61,942**	56,852
Less accumulated depreciation	**25,290**	22,777
	36,652	34,075
Land	**9,529**	8,689
	46,181	42,764
Fixed assets under capital leases, less amortization (note 5)	**1,922**	1,875
Goodwill, less amortization	**360**	480
	$127,637	$120,310

Approved by the Board

R. Jackson Director

M. Booty Director

Liabilities	**1980**	1979
Current liabilities		
Bank indebtedness	**$ 7,145**	$ 8,559
Accounts payable and accrued liabilities	**39,269**	36,930
Income and other taxes payable	**5,126**	2,816
Dividends payable	**873**	697
Current portion of obligations under capital leases	**49**	23
Long term debt payable within one year	**182**	174
	52,644	49,199
Long term obligations under capital leases (note 5)	**1,989**	1,891
Long term debt (note 3)	**2,796**	3,536
Deferred income taxes	**2,427**	2,371
Deferred real estate income	**765**	819
Shareholders' Equity		
Capital stock (note 4)	**1,734**	2,217
Retained earnings	**65,282**	60,277
	67,016	62,494
	$127,637	$120,310

Consolidated Statement of Changes in Financial Position

Westfair Foods Ltd.
53 weeks ended January 3, 1981
and 52 weeks ended December 29, 1979
(in thousands of dollars)

	1980	1979
Sources of working capital		
Operations		
Net earnings	**$ 8,449**	$ 7,441
Depreciation and amortization	**4,586**	3,937
Gain on disposal of fixed and other assets	**(3,182)**	(450)
Income taxes not requiring cash	**56**	390
Amortization of deferred real estate income	**(66)**	(66)
Cash flow from operations	**9,843**	11,252
Financing		
Net additions to obligations under capital leases	**98**	1,891
Other items		
Decrease in secured loans and advances	**2,531**	187
Proceeds from disposal of fixed and other assets	**5,802**	925
Increase in deferred real estate income	**12**	200
Total sources of working capital	**18,286**	14,455
Uses of working capital		
Reinvestment		
Purchase and carrying costs of land held for sale or development	**30**	32
Increase in sundry investments	**113**	
Additions to fixed assets under capital leases	**166**	1,948
Purchase of fixed assets	**10,384**	10,843
Financing		
Reduction in long term debt	**740**	260
Purchase and cancellation of preferred shares	**483**	
Dividends	**3,444**	2,715
Total uses of working capital	**15,360**	15,798
Increase (decrease) in working capital	**2,926**	(1,343)
Working capital at beginning of period	**17,046**	18,389
Working capital at end of period	**$19,972**	$17,046

Notes to Consolidated Financial Statements

Westfair Foods Ltd.
53 weeks ended January 3, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation
The consolidated financial statements include the accounts of the Company and all its subsidiaries.

(b) Inventories
Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. All other inventories are stated at the lower of cost and net realizable value.

(c) Land held for sale or development
Land held for sale or development is stated at the lower of cost, including direct carrying charges, and net realizable value.

(d) Goodwill
Goodwill arises from the excess of cost of assets over fair value of net assets acquired. The Company's policy is to amortize the goodwill over a period of ten years.

(e) Fixed assets
All fixed assets are stated at cost. Depreciation is recorded on a straight-line basis to amortize the cost of fixed assets over their estimated useful lives. The depreciation rates are substantially as follows

Buildings	2½% to 5%
Automotive equipment	12½% to 22½%
Equipment and fixtures	10% to 20%
Leasehold improvements	Lesser of useful life or term of lease

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in earnings.

(f) Leases
Leases entered into after December 30, 1978 which transfer substantially all of the benefits and risks incident to ownership of property are recorded as the acquisition of an asset and the incurrence of an obligation. Under this method of accounting for leases, the asset is amortized on a straight-line basis and the obligation, including interest thereon, is liquidated over the life of the lease. Rents on non-capital leases and on all leases entered into before December 31, 1978 are expensed as incurred.

(g) Deferred real estate income
The profits realized on the sale and lease-back of property have been deferred and are being amortized at various rates according to the remaining term of the respective leases.

(h) Translation of foreign currencies
All U.S. balances have been translated at a rate approximating the current rate at each year end. The difference on the translation of the Company's equity in a U.S. subsidiary is included in "Fixed Assets" on the balance sheet as a reduction thereof. The difference at the end of 1979 and any subsequent difference due to a change in the year end rate is amortized to earnings on a straight-line basis over ten years.

2. ACCOUNTS RECEIVABLE

	1980	1979
	(in thousands of dollars)	
Trade	**$14,993**	$12,984
Loans, advances, mortgages and non-current receivables due within one year	**392**	766
	$15,385	$13,750

3. LONG TERM DEBT

	1980	1979
	(in thousands of dollars)	
Western Grocers Inc. (repayable in U.S. dollars)		
7% Mortgage due May 1, 1984	**$ 294**	$ 372
8⅞% Mortgage due July 1, 1997	**2,450**	2,512
9½% Mortgage due September 1, 1997	**181**	186
11% Mortgage due December 30, 1982	**53**	75
Westfair Properties Ltd. 5¾% first mortgage bonds		553
Ensign Stores Ltd. 7¼% mortgage		12
	2,978	3,710
Less instalments due within one year	**182**	174
	$ 2,796	$ 3,536

Instalments on long term debt due in each of the next five years are

1981	$182,000
1982	199,000
1983	183,000
1984	120,000
1985	104,000

4. CAPITAL STOCK

	1980	1979
	(in thousands of dollars)	
Authorized		
175,000 Preferred shares, redeemable at a price not exceeding $22 per share		
150,000 Class A shares		
150,000 Common shares		
Issued		
32,898 (59,715 in 1979) Preferred shares ($1.40 series)	**$ 711**	$1,194
67,772 Class A shares	**585**	585
86,658 Common shares	**438**	438
	$1,734	$2,217

The holders of the existing preferred shares ($1.40 series) are entitled to a dividend, when and as declared, of $1.40 per share per annum on a cumulative, non-participating basis. The holders of the Class A shares are entitled to dividends,

when and as declared, of $2.00 per share per annum on a non-cumulative, non-participating basis. No dividends shall be paid or declared for payment on common shares in any fiscal period unless and until dividends at the rate of $2.00 per share for such year have been paid or declared on the Class A shares.

During the year the Company purchased for cancellation 26,817 preferred shares ($1.40 series) at a cost of $483,000.

On October 27, 1980 the Company received a Certificate of Continuance under the Canada Business Corporations Act.

5. LEASES AND COMMITMENTS

The Company and its subsidiaries have obligations under long term leases for retail outlets, warehousing facilities, equipment and store fixtures. Assets under capital leases entered into after December 30, 1978 and recorded as assets are

	1980	1979
	(in thousands of dollars)	
Building	**$1,948**	$1,948
Equipment	**166**	
	2,114	1,948
Less accumulated amortization	**192**	73
	$1,922	$1,875

Had the Company retroactively applied the capitalization policy to leases entered into prior to December 31, 1978, the reduction in net earnings for 1980 would have been $162,000 (1979-$104,000) and assets and obligations would have been increased in the balance sheet by $7,647,000 (1979-$10,112,000) and $10,041,000 (1979-$12,181,000) respectively.

The following tables represent minimum lease commitments together with the present value of the obligations under capital leases entered into after December 30, 1978.

	Capital leases entered into after December 30, 1978	
	1980	1979
	(in thousands of dollars)	
For the year		
1980		$ 237
1981	**$ 250**	237
1982	**281**	236
1983	**281**	236
1984	**291**	248
1985	**281**	
Thereafter to 2006	**3,269**	3,516
Total minimum lease payments	**4,653**	4,710
Less amounts representing interest	**2,615**	2,796
Balance of the obligation	**2,038**	1,914
Less current portion	**49**	23
	$1,989	$1,891

	Other leases		
	Gross liability	Expected sub-lease income	Expected net liability
	(in thousands of dollars)		
For the year			
1981	$ 6,180	$ 1,844	$ 4,336
1982	6,237	1,846	4,391
1983	5,681	1,815	3,866
1984	4,966	1,616	3,350
1985	4,439	1,483	2,956
Thereafter to 2006	34,494	12,897	21,597
Total minimum lease payments	$61,997	$21,501	$40,496

6. INCOME TAXES

A subsidiary has losses carried forward of $3,200,000 available to reduce future years' income taxes, the effect of which has not been recorded in the accounts. The losses carried forward expire in 1985 and in 1987.

7. CONTINGENT LIABILITIES

At January 3, 1981 guarantees amounted to approximately $612,000.

8. RELATED PARTY TRANSACTIONS

The Company is one of the subsidiaries of Kelly, Douglas & Company, Limited, a subsidiary of Loblaw Companies Limited which in turn is a subsidiary of George Weston Limited.

The following summarizes transactions as recorded in the 1980 financial statements of the Company with the above related parties and their subsidiaries

	(in thousands of dollars)
Sales	$ 907
Net interest income	672
Dividends received	262
Gain on disposal of fixed and other assets	384
Purchases included in cost of sales	37,286
Management fees	212
Net long term lease expense	161
Dividends declared	3,297
Fixed asset purchases	1,025
Accounts receivable	101
Investment in preferred shares	3,750
Accounts payable	3,313
Dividends payable	828
Preferred shares ($1.40 series) purchased for cancellation	319

Purchases of $150,108,000 from third parties were also made under cooperative trade agreements arranged by related parties.

9. SEGMENTED INFORMATION

The Company's only significant activity is food distribution. Sales, operating income (loss) and total assets were $585,011,000, $19,461,000 and $91,601,000 in Canada, and $296,333,000, ($826,000) and $36,036,000 in the United States.

Auditors' Report

To the Shareholders of
Westfair Foods Ltd.

We have examined the consolidated balance sheet of Westfair Foods Ltd. as at January 3, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the 53 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 3, 1981 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Thorne Riddell

Chartered Accountants
Winnipeg, Canada
January 30, 1981

Directors

Raymond J. Addington
Mervyn D. Booty
Keith W. Campbell
William C. Gardner
Charles M. Humphrys
S. Simon Reisman

Audit Committee
William C. Gardner-
Chairman
Raymond J. Addington
S. Simon Reisman

Officers

Raymond J. Addington
Chairman & Chief Executive Officer

Mervyn D. Booty
President & Chief Operating Officer

Keith W. Campbell, C.A.
Sr. Vice-President & Secretary

Charles V. Bemben
Vice-President

David G. King, C.A.
Vice-President, Controller

Charles W. Markusa, C.A.
Assistant Controller

Thomas E. Anderson
Assistant Secretary

Transfer Agent
The Royal Trust Company

Auditors
Thorne Riddell

Solicitors
Pitblado & Hoskin

Stock Listings
Toronto and Winnipeg
Stock Exchanges

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